

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

| | | | |
|--|--------------------------------------|---|----------------------------|
| Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other | | Local Unit Name Kalamazoo Economic Development Corp | County Kalamazoo |
| Fiscal Year End December 31, 2006 | Opinion Date June 28, 2007 | Date Audit Report Submitted to State June 29, 2007 | |

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

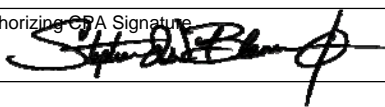
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

| | | | | |
|--|-------------------------------------|--|--------------------|--------------------------------|
| We have enclosed the following: | Enclosed | Not Required (enter a brief justification) | | |
| Financial Statements | <input checked="" type="checkbox"/> | | | |
| The letter of Comments and Recommendations | <input type="checkbox"/> | | | |
| Other (Describe) | <input type="checkbox"/> | | | |
| Certified Public Accountant (Firm Name) REHMANN ROBSON | | Telephone Number 517-787-6503 | | |
| Street Address 675 Robinson Road | | City Jackson | State MI | Zip 49203 |
| Authorizing CPA Signature  | | Printed Name Stephen W. Blann, CPA, CGFM | | License Number 24801 |

CITY OF KALAMAZOO, MICHIGAN

**ECONOMIC DEVELOPMENT
CORPORATION**

Basic Financial Statements

**For the Year Ended
December 31, 2006**



REHMANN ROBSON

Certified Public Accountants

**CITY OF KALAMAZOO, MICHIGAN
ECONOMIC DEVELOPMENT CORPORATION**

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REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**



INDEPENDENT AUDITORS' REPORT

June 28, 2007

Board of Directors
Economic Development Corporation of the
City of Kalamazoo
Kalamazoo, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the ***Economic Development Corporation of the City of Kalamazoo, Michigan (a component unit of the City of Kalamazoo)***, as of and for the year ended December 31, 2006, which collectively comprise the Corporation's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the ***Economic Development Corporation of the City of Kalamazoo, Michigan*** as of December 31, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2007, on our consideration of the Economic Development Corporation of the City of Kalamazoo, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Corporation has not presented Management's Discussion and Analysis for the Economic Development Corporation as required supplementary information. The GASB has determined that such information is necessary to supplement, although not required to be part of the basic financial statements.

BASIC FINANCIAL STATEMENTS

CITY OF KALAMAZOO, MICHIGAN
Economic Development Corporation
Statement of Net Assets and
Governmental Fund Balance Sheet
December 31,2006

| | <u>General Fund</u> | <u>Full Accrual Adjustments</u> | <u>Statement of Net Assets</u> |
|---|--------------------------------|--|---|
| Assets | | | |
| Cash and cash equivalents | \$ 79,357 | \$ - | \$ 79,357 |
| Notes receivable | <u>1,535,627</u> | <u>-</u> | <u>1,535,627</u> |
| Total assets | <u><u>\$ 1,614,984</u></u> | <u>-</u> | <u>1,614,984</u> |
| Liabilities | | | |
| Accrued liabilities | \$ 2,001 | - | 2,001 |
| Due to the City of Kalamazoo | 308 | - | 308 |
| Advances from the City of Kalamazoo | 1,435,627 | - | 1,435,627 |
| Deferred revenue | <u>100,000</u> | <u>(100,000)</u> | <u>-</u> |
| Total liabilities | 1,537,936 | (100,000) | 1,437,936 |
| Fund balance | | | |
| Unreserved | <u>77,048</u> | <u>(77,048)</u> | <u>-</u> |
| Total liabilities and fund balance | <u><u>\$ 1,614,984</u></u> | | |
| Net assets | | | |
| Unrestricted | | <u><u>\$ 177,048</u></u> | <u><u>\$ 177,048</u></u> |

The accompanying notes are an integral part of these financial statements.

CITY OF KALAMAZOO, MICHIGAN
Economic Development Corporation
Reconciliation of Fund Balance of the
Governmental Fund to Net Assets
December 31,2006

| | |
|----------------------------------|-----------|
| Fund balance - governmental fund | \$ 77,048 |
|----------------------------------|-----------|

Amounts reported in the statement of net assets are different because:

The focus of the governmental fund is on short-term financing. Some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental fund, and thus are not included in fund balance.

| | |
|--------------------------------|----------------|
| Add: deferred notes receivable | <u>100,000</u> |
|--------------------------------|----------------|

| | |
|------------|--------------------------|
| Net assets | <u><u>\$ 177,048</u></u> |
|------------|--------------------------|

The accompanying notes are an integral part of these financial statements.

CITY OF KALAMAZOO, MICHIGAN
Economic Development Corporation
Statement of Activities and
Governmental Fund Revenues, Expenditures
and Changes in Fund Balances
For the Year Ended December 31, 2006

| | <u>General Fund</u> | <u>Full Accrual Adjustments</u> | <u>Statement of Activities</u> |
|--------------------------------------|-------------------------|-------------------------------------|------------------------------------|
| Revenue | | | |
| Interest and rent | \$ 1,966 | \$ - | \$ 1,966 |
| Other revenue | 91,784 | - | 91,784 |
| | <u>93,750</u> | <u>-</u> | <u>93,750</u> |
| Total revenue | <u>93,750</u> | <u>-</u> | <u>93,750</u> |
| Expenditures / expenses | | | |
| Wages and benefits | 78,103 | - | 78,103 |
| Outside contractual services | 2,664 | - | 2,664 |
| | <u>80,767</u> | <u>-</u> | <u>80,767</u> |
| Total expenditures / expenses | <u>80,767</u> | <u>-</u> | <u>80,767</u> |
| Revenue over (under) expenditures | 12,983 | (12,983) | - |
| Change in net assets | - | 12,983 | 12,983 |
| Fund balance / net assets | | | |
| Beginning of year | 64,065 | 100,000 | 164,065 |
| | <u>64,065</u> | <u>100,000</u> | <u>164,065</u> |
| End of year | <u>\$ 77,048</u> | <u>\$ 100,000</u> | <u>\$ 177,048</u> |

The accompanying notes are an integral part of these financial statements.

CITY OF KALAMAZOO, MICHIGAN ECONOMIC DEVELOPMENT CORPORATION

Notes to Basic Financial Statements

1. NATURE OF ORGANIZATION

Organization – The Economic Development Corporation (the “Corporation”) was incorporated by the City of Kalamazoo, Michigan (the “City”) on March 7, 1977. Its purpose is to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving or expanding within the City so as to provide needed services and facilities of such commercial enterprises to the residents of the City. The governing body of the Corporation is a Board of Directors consisting of at least nine members, with no more than three members being employed by the City. In certain situations, members of the Board of Directors may be removed by a majority vote of the Kalamazoo City Commission.

Since the passage of the 1986 Tax Reform Act, which curtailed the favorable treatment for EDC revenue bonds, the activities of the Corporation have significantly decreased. Accordingly, the Corporation has not prepared or approved a budget for 2006 as management and the Board believes it is not necessary for the level of activity in the Corporation.

Bond and Note Issues – The Corporation issues tax-exempt revenue bonds and notes under authority of the Michigan Economic Development Corporation Act. Proceeds of the debt issues are used to purchase or construct facilities that are leased to industrial and commercial enterprises under contracts which provide for sufficient revenue to satisfy principal and interest obligations of the debt issues. The property is transferred to the lessee at the time the indebtedness is paid in full.

The structure of the aforementioned “lease” transactions is such that the leased property and the related debt are not considered to be assets or general obligations of the Corporation and, accordingly, are not recognized in the financial statements of the Corporation.

As of December 31, 2006, there were six series of Economic Development Corporation bonds outstanding, with an aggregate principal amount payable of \$38,830,000.

CITY OF KALAMAZOO, MICHIGAN ECONOMIC DEVELOPMENT CORPORATION

Notes to Basic Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. Based on this criteria, no component units are included in these financial statements.

The Corporation is included in the Comprehensive Annual Financial Report of the City of Kalamazoo, Michigan, as a discretely presented component unit.

Government-wide and Fund Financial Statements – As permitted by GASB Statement No. 34, the Corporation uses an alternative approach reserved for single program governments to present combined government-wide and fund financial statements by using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column. Accordingly, this is presented in the Statement of Net Assets and Governmental Fund Balance Sheet and the Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balances. The general fund is reported as a separate column in the aforementioned financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation – The government-wide financial information is reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial information is reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Corporation considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB.

CITY OF KALAMAZOO, MICHIGAN ECONOMIC DEVELOPMENT CORPORATION

Notes to Basic Financial Statements

3. DEPOSITS

The Corporation's cash and cash equivalents at December 31, 2006 consisted of bank deposits with a carrying value of \$79,357.

Custodial Credit Risk - Deposits. For deposits, custodial credit risk is the risk, that in the event of a bank failure, the Corporation's deposits may not be returned to the government. The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$79,357 at December 31, 2006. Federal depository insurance is applied to the City of Kalamazoo's deposits as a whole. Therefore, the portion of the Corporation's deposit covered by FDIC is not determinable.

The Corporation's banking and investment policy does not specifically address this risk, although the Corporation believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Corporation evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

4. RISK MANAGEMENT

The Economic Development Corporation is exposed to various risks of loss related to torts, errors and omissions. The Corporation participates in the City of Kalamazoo's risk management program for all of these exposures. The City's risk management program is primarily a self-insured program with reinsurance for amounts in excess of aggregate loss funds. The City estimates the liability for unpaid claims (including claims incurred but not reported) and allocates the cost to all appropriate entities and funds. There is no further exposure to the Economic Development Corporation that would require a liability to be recorded in the financial statements.

5. NOTES RECEIVABLE

In 2006, the Corporation had loans receivable outstanding totaling \$1,535,627 to local businesses for purposes of redeveloping certain properties in downtown Kalamazoo. Of this amount \$186,966 is expected to be collected within one year. Under the terms of the agreements, the loans are secured by mortgages on the properties and personal guarantees from applicants. Loan repayment terms have been structured on a case-by-case basis, with certain loans amortized with principal and interest payments beginning immediately, and others beginning with interest-only payments. Certain loans have a balloon payment structure.

**CITY OF KALAMAZOO, MICHIGAN
ECONOMIC DEVELOPMENT CORPORATION**

Notes to Basic Financial Statements

The funding for these loans was derived from an advance from the City of Kalamazoo under its Economic Initiatives Fund program. Principal and interest payments from loan recipients are transferred to the Economic Initiatives Fund upon receipt; however, no interest is charged directly by the Economic Initiatives Fund to the Corporation for the advance.

* * * * *



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

June 28, 2007

Board of Directors
Economic Development Corporation of the
City of Kalamazoo
Kalamazoo, Michigan

We have audited the financial statements of the *Economic Development Corporation of the City of Kalamazoo, Michigan* (a component unit of the City of Kalamazoo), as of and for the year ended December 31, 2006, and have issued our report thereon dated June 28, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the *Economic Development Corporation of the City of Kalamazoo, Michigan's* internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the *Economic Development Corporation of the City of Kalamazoo, Michigan's* internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the *Economic Development Corporation of the City of Kalamazoo, Michigan's* ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Corporation's financial statements that is more than inconsequential will not be prevented or detected by the *Economic Development Corporation of the City of Kalamazoo, Michigan's* internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be presented or detected by the *Economic Development Corporation of the City of Kalamazoo, Michigan's* internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the *Economic Development Corporation of the City of Kalamazoo, Michigan's* financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests and the reports of the other auditors disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, others within the organization, the Board, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.